

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS**

YEAR ENDED DECEMBER 31, 2006

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- the marketing and sales of our products and services;
- the declaration and distribution of any future dividends;
- our ability to sustain licensing and other contract-based revenues;
- the impact of our contracts with the NIH and The Wellcome Trust on future business;
- the value of, and expenses associated with, our intellectual property;
- the requirements of pharmaceutical and biotechnology companies;
- the benefits of knockout mice programs and, in particular, our technologies and products, to the pharmaceutical industry;
- the increasing competition we face in the field of knockout mice from both commercial and government organizations;
- failures in the drug discovery, development and approval processes by our partners and collaborators;
- our ability to successfully execute our business plan and to meet contractual obligations, in view of the Company's limited staff; and
- liquidity and capital resources.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential" and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. These forward-looking statements represent our estimates and assumptions only as of the date of this report.

You should read this report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

YOU SHOULD READ THE FOLLOWING DISCUSSION AND ANALYSIS IN CONJUNCTION WITH OUR FINANCIAL STATEMENTS AND THE NOTES ACCOMPANYING THE FINANCIAL STATEMENTS.

1. Overview

Deltagen (or the “Company” or “We”) is a provider of research tools to the biopharmaceutical industry and to the academic research community. Deltagen has generated an inventory of “knockout mice” in which a single gene has been deleted (“knocked out”). The knockout mice have been analyzed to determine the phenotypic changes associated with that gene deletion. This phenotypic data has been organized in an integrated database known as DeltaBase. DeltaBase contains phenotypic data on 750 different knockout mouse lines. In addition to those 750 knockout mouse lines, Deltagen has approximately 150 additional knockout mouse lines that have not been characterized phenotypically. Deltagen also has approximately 450 knockout lines at the embryonic stem (ES) cell stage.

Our customers and partners/collaborators have included some of the world’s largest pharmaceutical companies, including GlaxoSmithKline plc, Merck & Co., Inc., Pfizer Inc., Eli Lilly and Company and Schering-Plough Research Institute.

We have generated revenue from our DeltaBase and DeltaOne products and programs.

DeltaBase is our proprietary database that provides information, based on knockout mouse studies, on gene function and validated gene targets for drug discovery. Each knockout mouse underwent a standardized, detailed and extensive analysis in order to determine the function and role that a particular gene plays in the mouse and that gene’s suitability as a drug target.

DeltaOne offers access to our portfolio of knockout mice and/or accompanying phenotypic data, as well as any corresponding intellectual property, on a gene-by-gene basis.

The Company has a three-year contract, expiring September 30, 2008, with the United States Government through the National Institutes of Health (“NIH”). Under this contract, potentially worth up to about \$25 million, the NIH and The Wellcome Trust are eligible to order any of the approximately 750 knockout mouse lines (and related phenotypic data) that populate DeltaBase. The NIH is permitted to publish the phenotypic data and make the knockout mouse materials available for licensing to academic institutions. In September 2005, the NIH placed an initial delivery order for 129 knockout lines (\$5.16 million). A delivery order for four knockout mouse lines (\$0.160 million) was placed by the NIH in the third quarter of 2006. However, there are no assurances that the NIH will place any additional delivery orders during the three-year term of the NIH contract.

We derive substantially all of our revenues from a narrow and limited range of sources. Substantially all of our revenues are derived from the licensing of knockout mouse lines and related phenotypic data to the biopharmaceutical industry and pursuant to government contracts. Because of continuing consolidation in the biopharmaceutical industry and the finite number of knockout lines in the Company’s inventory, significant uncertainty exists with respect to the Company’s future revenues.

Our operating results have fluctuated in the past and are likely to do so in the future, and we do not believe that period-to-period comparisons of our operating results are a good indication of our future performance.

2. Critical Accounting Policies and Estimates

The consolidated financial statements of Deltagen for the year ended December 31, 2006 are audited and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for annual financial information. These consolidated financial statements have been prepared so that they present fairly, in the opinion of management, the Company’s financial position and its results of operations and its cash flows for the period presented.

Under our revenue recognition policy, revenues are recognized when a definitive agreement with a determinable price exists, product delivery and/or invoicing (in each case where there is reasonable assurance of meeting customer-specified criteria) have occurred, and collectibility is reasonably assured. A

change in our revenue recognition policy or changes in the terms of contracts under which we recognize revenues could have an impact on the amount and timing of our recognition of revenues.

The preparation of consolidated financial statements in conformity with GAAP requires the Company to make estimates and assumptions that affect the amounts that are reported in the consolidated financial statements and accompanying disclosures. Although these estimates are based on the Company's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ materially from the estimates.

3. Results of Operations

The Company's consolidated revenues for the year ended December 31, 2006 totaled \$9.780 million. The revenues were attributable primarily to: (i) license fees associated with the provision of knockout mice and related phenotypic data under the Company's DeltaOne™ program; (ii) fees associated with the acceptance by the NIH of materials relating to the initial delivery order placed by the NIH in September 2005; and (iii) milestone buyout payments from two of the Company's DeltaBase subscribers, which were received during the fourth quarter of 2006.

The Company had interest income of \$0.255 million for the year ended December 31, 2006.

Total consolidated expenses for the year ended December 31, 2006 were \$5.825 million, of which \$0.369 million were attributable to non-cash stock-based compensation expenses relating to stock options granted by the Company on March 30, 2006 in accordance with Statement of Financial Standards (SFAS 123R). The operating expenses were attributable primarily to third-party royalty and commission expenses (\$2.02 million), as well as labor costs and other general and administrative expenses. Legal and administrative expenses associated with the prosecution of patent applications relating to the Company's DeltaBase knockout mouse lines decreased to \$0.687 million in 2006 from \$1.138 million in 2005, due to the cessation of prosecution efforts on substantially all of the Company's DeltaBase-related patent applications during the fourth quarter of 2006. DeltaBase-related patent prosecution expenses were \$0.030 million in the fourth quarter of 2006.

Net income before provision for income taxes for the year ended December 31, 2006 was \$4.210 million. Net income for the year ended December 31, 2006 was \$4.368 million.

As of December 31, 2006, the Company had \$6.135 million in consolidated cash and cash equivalents and \$1.660 million in accounts receivable, following distribution of a dividend of \$0.20 per share on December 28, 2006. The dividend reduced cash holdings of the Company by \$7.719 million.

4. Major Events in Fourth Quarter of 2006

a. Completion of Strategic Review: In July 2006, the Company engaged the services of an investment banking firm to assist the Company in identifying and evaluating various strategic alternatives and opportunities, including possible sale of the Company. After thoroughly reviewing the alternatives, the Board of Directors of the Company decided in November 2006 not to pursue any such opportunities and terminated its agreement with the investment banking firm.

b. Dividend Declaration: After careful consideration of its various strategic alternatives and opportunities, the Company determined that declaration of a dividend would serve best the interests of the Company's shareholders. The Company distributed on December 28, 2006 a dividend of \$0.20 per share. The total dividend distribution was approximately \$7.7 million.

c. DeltaBase Milestone Buyouts: During the strategic review of the Company's alternatives, the Board of Directors of the Company decided it was in the best interest of the Company's shareholders to negotiate buyouts with its DeltaBase subscribers. In October and December 2006, the Company entered into agreements with two DeltaBase collaborators under which the Company received one-time buyout payments in exchange for the elimination of future access extension fees and potential milestone payments. These buyouts do not affect any fees due Deltagen associated with the provision of knockout mouse materials in the future, if any. The Company received the buyout payments in December 2006. Because the Company was successful in reaching buyout arrangements with such collaborators, the Company decided in December 2006 to discontinue prosecution of substantially all of its patent applications relating to individual knockout mouse lines covered by those DeltaBase collaborations. Cessation of patent prosecution efforts has significantly reduced operating expenses. Legal and administrative expenses for the year ended December 31, 2006 associated with the prosecution of patent applications relating to the Company's DeltaBase knockout mouse lines were \$0.687 million, compared to \$1.138 million in 2005, due to the cessation of prosecution efforts on substantially all of the Company's DeltaBase-related patent applications during the fourth quarter of 2006. DeltaBase-related patent prosecution expenses were \$0.030 million in the fourth quarter of 2006. In deciding to discontinue prosecution of its patent applications, the Company took into consideration many factors including, but not limited to, the following factors: the expense of continued patent prosecution; the likelihood of obtaining issued patents; the scope and breadth of any patent claims were such patents to issue; the likelihood that any such patent claims would be valid, enforceable and have commercial value; the likelihood that any such patent claims would recite the same phenotypes or disease indications as those for which our drug collaborators would have developed and commercialized drugs; the likelihood that drug development and approval milestones would be reached by our DeltaBase collaborators; the likely timing of any such milestone payments; the likelihood that our DeltaBase collaborators would dispute whether milestone payments have been triggered and the expense of litigating with such collaborators, if necessary; and the probability of successfully enforcing any issued patents against potential infringers, together with the expense of such litigation and an estimation of any damages that may be awarded were the Company to prevail.

d. Contracts with The Wellcome Trust and GSF: In November 2006, the Company entered into agreements with The Wellcome Trust and GSF – National Research Center for Environment and Health GmbH ("GSF") for the provision by the Company of knockout mouse lines for distribution to academic researchers. The terms of these agreements are generally consistent with those of the NIH contract, under which The Wellcome Trust, as a "partner" of the NIH, was eligible for financial terms no less favorable than those under the NIH contract. The Wellcome Trust and GSF are not obligated to place any orders under these contracts and, to date, have not placed any orders.

e. New Facilities Lease: In November 2006, the Company signed a two-year lease for new office space located at The Atrium, 1900 South Norfolk Street, Suite 105, San Mateo, CA 94403. The new address became effective in January 2007.

5. Management and Board Matters; Director and Officer Compensation

a. Board Committees and Meetings

During the year ended December 31, 2006, our Board of Directors, consisting of six non-employee directors, held 7 meetings, of which 3 were held in person and 4 were held telephonically. The non-employee directors throughout 2006 consisted of Constantine Anagnostopoulos (chairman), Philippe Chambon, Martin Hernon, Lawrence Hill, Thomas Penn and William Scott.

In 2006, our Board of Directors had an Audit Committee and a Compensation Committee.

Audit Committee

The Audit Committee of the Board of Directors oversees the Company's corporate accounting and financial reporting process, and ensures the integrity of the Company's financial statements. The Audit Committee performs several functions, such as evaluating the performance of, and assessing the qualifications of, the independent public accounting firm; determining on behalf of the Board of Directors whether to retain or terminate the existing independent public accounting firm or to appoint and engage a new independent public accounting firm; reviewing and approving the engagement of the independent public accounting firm to perform any proposed permissible services and appropriate compensation thereof; reviewing the financial statements to be included in the Company's press releases and related financial disclosures; discussing with management and the independent public accounting firm the results of the annual audit and the results of the Company's quarterly financial statement reviews; and resolving any disagreements between the independent public accounting firm and management.

During 2006, the Audit Committee was comprised of two independent directors, Lawrence Hill (chairman) and Thomas Penn. The Audit Committee met 4 times during the year ended December 31, 2006, twice in person and twice telephonically.

Compensation Committee

The purpose of the Compensation Committee is to oversee the Company's compensation policies, plans and programs, to establish target performance goals and bonuses, and to review and determine the compensation to be paid to the Company's officers and directors. The Compensation Committee reviews and recommends to the Board of Directors the compensation and benefits of all of our officers, and performs such other functions regarding compensation as the Board of Directors may delegate. The Compensation Committee also administers the issuance and management of stock options and other awards under our stock plans.

In structuring compensation for the Company's executive officers, including the Chief Executive Officer, the goal of the Compensation Committee is to enable the Company to retain and motivate high caliber executives by offering competitive compensation and rewarding superior performance, while also linking executive compensation to the interests of stockholders. Accordingly, a substantial portion of each executive officer's total potential compensation is linked to Company performance. In addition to a base salary, executives are eligible for annual bonuses that are linked to the Company's and the executives' achievement of key goals.

In setting the compensation levels for the Company's executive officers, including the Chief Executive Officer, the Compensation Committee considers various factors, including the performance of the Company and the individual executive during the year; the uniqueness and relative importance of the executive's skill set to the Company; the executive's expected future contributions to the Company; the value of options, if any, held by the executive; and the executive's tenure, as well as applicable market pressures. The Compensation Committee also periodically reviews, as deemed appropriate, market and benchmark data, which include competitive information relating to compensation levels for comparable positions in the biotechnology and life sciences industries, as well as the compensation levels of other executive officers of the Company. When establishing each element of an executive officer's compensation, the Compensation Committee also takes into consideration the executive's historical cash and equity compensation, as well as his or her total current and potential compensation.

During 2006, the Compensation Committee was comprised of three directors, Philippe Chambon (chairman), Constantine Anagnostopoulos and William Scott. The Compensation Committee met 2 times during the year ended December 31, 2006.

b. Executive Officers of the Company

The following chart sets forth certain information regarding the executive officers of the Company as of December 31, 2006:

Name	Age	Position
Robert J. Driscoll, J.D., Ph.D.	41	President, Chief Executive Officer and Secretary
Winston Thomas, Ph.D.	50	Chief Operating Officer
Shera Kash, Ph.D.	39	Vice President, Operations
Daniel Ratto	48	Chief Financial Officer

c. Employment Agreements

In February 2006, the Company entered into employment agreements with each of the Company's officers pursuant to which such officers are entitled to receive a specified initial base salary. Base salary is reviewed and may be adjusted by the Compensation Committee in its sole discretion from time to time based on an annual review of the officer's performance. The officer is also eligible for an annual bonus based upon the achievement of specified performance objectives, as determined by the Board in its sole discretion. The employment agreements also include certain severance provisions.

If any of the officers' employment with the Company terminates due to an involuntary termination without cause or a constructive termination, then the executive is entitled to any accrued compensation as of the date of termination, as well as the right to continue to receive as severance compensation the officer's base salary for the lesser of (i) six months from the date of termination (nine months in the case of Dr. Driscoll) or (ii) until the date on which the officer begins other employment or enters into a consulting or other similar arrangement (the "Mitigation Cutback"). The Board may, in its sole discretion, reduce or eliminate the Mitigation Cutback.

d. 2006 Compensation of Executive Officers

Cash Compensation

The following table shows the cash compensation awarded or paid to, or earned by, the Company's officers relating to the 2006 calendar year.

Name	Base Salary	Target Bonus (% of Base Salary)	Target Bonus Amount	2006 Performance Bonus Awarded(1)
Robert Driscoll	\$300,000	40%	\$120,000	\$111,000(2)
Winston Thomas	\$232,000	25%	\$58,000	\$37,700
Shera Kash	\$160,000	20%	\$32,000	\$32,000
Dan Ratto	\$90,000	20%	\$18,000	\$15,300

(1) These performance bonuses were awarded and paid in February 2007.

(2) Dr. Driscoll was awarded an additional extraordinary performance bonus, based on a formula that had been previously established by the Compensation Committee, equal to 72% of Dr. Driscoll's target bonus (i.e., \$86,400). Accordingly, Dr. Driscoll was awarded a total performance bonus of \$197,400 for 2006.

Equity Compensation

The table below provides information regarding the equity compensation arrangements awarded to the Company's officers during the year ended December 31, 2006.

Name	Shares Underlying Options(1)
Robert Driscoll	2,250,000
Winston Thomas	900,000
Shera Kash	450,000
Daniel Ratto	180,000

- (1) All of these options were awarded on March 30, 2006. Details of these options may be found in the Company's MD&A disclosure relating to the first quarter of 2006, which is posted on the Company's website at www.deltagen.com. These options were surrendered and terminated in March 2007 in exchange for certain bonuses that were awarded to the officers under a Management Retention and Incentive Bonus Plan adopted in February 2007. Details of this Management Retention and Incentive Bonus Plan may be found below in the "Subsequent Events" section.

e. 2006 Compensation of Directors

Cash Compensation

The table below provides information regarding the cash compensation for non-employee directors for 2006. Dr. Driscoll received no compensation in his capacity as a member of the Board of Directors.

		<u>2006</u>
Board of Directors(1)	Retainer Fee	\$ 15,000
	Additional Chair Retainer Fee	5,000
	In-Person Meeting Fee	2,000
	Telephonic Meeting Fee	1,000
Audit Committee	Chair Retainer Fee	3,000
	Meeting Fee	500
Compensation Committee	Retainer Fee	2,000
	Meeting Fee	500

(1) Dr. Anagnostopoulos, Dr. Scott and Mr. Penn also each received a one-time cash payment of \$30,000 on November 29, 2006, the one-year anniversary of the effective date of reorganization of the Company, pursuant to the Plan of Reorganization and Disclosure Statement approved by the Bankruptcy Court.

Equity Compensation

The table below provides information regarding the equity compensation for non-employee directors for 2006.

Name	Shares Underlying Options(1)
Constantine E. Anagnostopoulos	460,000
Thomas A. Penn	460,000
William A. Scott	460,000
Philippe O. Chambon	90,000
Martin J. Hernon	90,000
Lawrence Hill	90,000

(1) All of these options were awarded on March 30, 2006. Details of these options may be found in the Company's MD&A disclosure relating to the first quarter of 2006, which is posted on the Company's website at www.deltagen.com. These options were surrendered and terminated in March 2007 in exchange for certain one-time bonuses that were awarded to the non-employee directors in February 2007. Details of these bonuses may be found below in the "Subsequent Events" section.

Reimbursement of Expenses

The members of the Board of Directors were also eligible for reimbursement of expenses incurred in connection with their attendance of Board and committee meetings in 2006.

f. 2007 Compensation of Executive Officers

Cash Compensation

The base salaries and target performance bonuses for the Company's officers in 2007 will be the same as in 2006, although the performance goals for 2007 will differ from those for 2006.

Equity Compensation

The Company does not expect to award stock options during 2007 to the Company's officers.

g. 2007 Compensation of Directors

Cash Compensation

The table below provides information regarding the cash compensation for non-employee directors for 2007, such fees to be payable pro-rata at the end of each quarter during 2007. Dr. Driscoll will receive no compensation in his capacity as a member of the Board of Directors. There are no meeting or committee fees for directors in 2007.

Board of Directors	Retainer Fee	<u>2007</u> \$ 40,000
	Additional Chair Retainer Fee	40,000

Equity Compensation

The Company does not expect to award stock options during 2007 to the Company's directors.

Reimbursement of Expenses

The members of the Board of Directors will remain eligible for reimbursement of expenses incurred in connection with their attendance of Board and committee meetings throughout 2007.

6. Subsequent Events

a. Xenopharm Earnout Shares

In an Agreement and Plan of Merger and Reorganization dated February 15, 2002 by among the Company, XP Acquisition Corporation and Xenopharm, Inc. (the "Merger Agreement"), entered into in connection with the Company's acquisition of Xenopharm, Inc., the Company agreed to issue shares of the Company's common stock to the former Xenopharm, Inc. shareholders (the "XP Holders") upon the occurrence of certain events.

On March 14, 2004, pursuant to and in satisfaction of a certain condition of the Merger Agreement, the XP Holders had rights to receive an aggregate of 131,572 shares of the Company's common stock (the "XP Earnout Shares"). These XP Earnout Shares were not issued to the XP Holders at such time, notwithstanding the requirement to do so. In addition to receipt of the XP Earnout Shares, the XP Holders were entitled to receive the cash dividend of \$0.20 per share distributed by the Company on December 28, 2006 with respect to the XP Earnout Shares.

In February 2007, the Board approved the issuance and delivery of the XP Earnout Shares to the XP Holders in accordance with the provisions of the Merger Agreement, and upon such issuance, payment of a cash dividend of \$0.20 per share to the XP Holders with respect to the XP Earnout Shares.

In April 2007, the Company authorized its transfer agent to issue and deliver the XP Earnout Shares and to pay the related dividends.

b. Xenopharm Patents Issued

Xenopharm, a wholly-owned subsidiary of the Company, is an exclusive licensee under certain technologies relating to the metabolism of foreign compounds, known as xenobiotics, invented by Professor David Moore et al. and assigned to the Baylor College of Medicine. Two United States patents, U.S. Patent No. 7,186,879 and U.S. Patent No. 7,193,125, directed to modulation of xenobiotic metabolism, issued in March 2007.

The patents' claims cover transgenic mice having reduced constitutive androstane receptor (CAR) activity, including CAR knockout mice, as well as "humanized" mice expressing a human CAR receptor. These mice are useful in screening methods to identify compounds that modulate, activate or inhibit CAR activity, compounds likely to have CAR-mediated toxicity, and analogs of these compounds with less potential toxicity. In particular, the humanized mice are useful as predictors of drug toxicity and metabolism, including drug-drug interactions, in the human body.

c. Dividend Declaration

The Company will distribute on or about May 31, 2007 a dividend of \$0.05 per share. The Company's shareholders of record as of the close of business on May 21, 2007 will receive this dividend. This dividend will reduce cash holdings of the Company by approximately \$1.94 million.

d. Marketing in Asia

On March 5, 2007, the Company entered into a marketing agreement with TransGenic Inc. of Japan (“TransGenic”) under which TransGenic became the Company’s exclusive sales and marketing representative in Japan, China and South Korea for the Company’s knockout mouse lines and related phenotypic data. The Company had previously been represented in Asia by Mitsubishi Corporation. TransGenic (www.transgenic.co.jp) offers custom knockout mouse production and phenotyping services and custom antibody production services, as well as sales and marketing services through a network of research centers and general trading companies in Asia. TransGenic, established in April 1998 and headquartered in Kumamoto, Japan, is listed on the Tokyo Stock Exchange (Mothers) and has three research centers and three offices in Japan

e. Management Retention and Incentive Bonus Plan in Lieu of Stock Options

On March 30, 2006, options to purchase an aggregate of 3,780,000 shares of the Company’s common stock were granted to members of the management team (the “Options”) in the amounts listed below:

Name	Shares Underlying Options
Robert Driscoll	2,250,000
Winston Thomas	900,000
Shera Kash	450,000
Daniel Ratto	180,000

Following the March 30, 2006 grant, the Board of Directors considered a variety of strategic alternatives for the Company and determined to distribute a significant cash dividend to shareholders on December 28, 2006. The Board may in the future decide to distribute additional cash amounts to shareholders. Given this choice of strategic direction for the Company, the Board determined that the Options no longer provided an effective retention mechanism or performance incentive to the Company’s management team.

In February 2007, the Board adopted a new retention and incentive bonus plan for members of management in exchange for termination of the Options. Under this plan, the management team members were awarded bonuses in the amounts listed below relating to the December 28, 2006 dividend (the “Bonuses”).

Name	Total Bonus Amount Relating to December 2006 Dividend	Percentage Interest For Bonuses Relating to Future Dividends
Robert Driscoll	\$ 422,768.87	5%
Winston Thomas	\$ 169,107.55	2%
Shera Kash	\$ 84,553.78	1%
Daniel Ratto	\$ 33,821.51	0.4%

Payment of the Bonuses is subject to the following installment payment schedule: one-third of the Bonuses were paid in February 2007 and one-third of the Bonuses shall be paid on each of December 28, 2007 and December 28, 2008, provided that the executive remains employed by the Company on each such date. In the event of a sale or liquidation of the Company or the termination of the executive’s employment without cause, all unpaid amounts of the Bonuses shall be paid in full, as applicable, either immediately prior to sale or liquidation of the Company or upon termination of the executive’s employment without cause.

In addition, under this plan, each executive shall receive an additional bonus with respect to each future dividend (if any) in an amount equal to (x) the percentage interest listed next to the executive's name on Exhibit B multiplied by (y) the sum of (i) the amount of each future dividend plus (ii) the aggregate amount of management bonuses relating to each such future dividend; provided, however, that payment of these future bonuses shall be subject to the following payment schedule: one-third of each such future bonus shall be paid upon distribution of each such future dividend to shareholders provided the executive remains employed with the Company on such date and one-third of each such bonus shall be paid on each of the first anniversary and second anniversary of the distribution date of each such future dividend, provided the executive remains employed with the Company on each such anniversary date. In the event of a sale or liquidation of the Company or the termination of the executive's employment without cause, all unpaid amounts of such future bonuses shall be paid in full, as applicable, either immediately prior to sale or liquidation of the Company or upon termination of the executive's employment without cause following the distribution date for each such future dividend.

f. Director Bonuses

On March 30, 2006, options to purchase an aggregate of 1,650,000 shares of the Company's common stock were granted to members of the Board of Directors (the "Director Options"), in the amounts listed below:

Name	Shares Underlying Options
Constantine E. Anagnostopoulos	460,000
Thomas A. Penn	460,000
William A. Scott	460,000
Philippe O. Chambon	90,000
Martin J. Hernon	90,000
Lawrence Hill	90,000

Following the March 30, 2006 grant, the Board of Directors considered a variety of strategic alternatives for the Company and determined to distribute a significant cash dividend to shareholders on December 28, 2006. The Board may in the future decide to distribute additional cash amounts to shareholders. Given this choice of strategic direction for the Company, the Board determined that the Director Options no longer provided an incentive to the Directors.

In February 2007, the Board decided that, in exchange for termination of the Director Options, the Directors would receive one-time bonuses in the amounts listed below:

Name	Bonus Amounts
Constantine E. Anagnostopoulos	\$92,000
Thomas A. Penn	\$92,000
William A. Scott	\$92,000
Philippe O. Chambon	\$18,000
Martin J. Hernon	\$18,000
Lawrence Hill	\$18,000

These bonuses were paid to Directors in February 2007.

RISK FACTORS AFFECTING FUTURE OPERATING RESULTS

There are numerous risks and uncertainties related to both our business and our industry that could cause actual results or events to differ materially from those indicated by forward-looking statements.

For a list of additional risk factors that may affect our future operating results, refer to the “Risk Factors” section of “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” for the year ended December 31, 2005, as posted on the Company’s website (www.deltagen.com). The risk factors listed there are not the only ones we face and additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair or otherwise affect our business operations.